

Emerging Markets Program Central Fund Proposal

Full title of proposal: Agricultural Initiative for Corn and Dry Beans in Mexico to Support NAFTA Implementation

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Name of organization submitting proposal:

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Description of problem: This proposal requests funding for the 2009 fiscal year (FY09), which covers the end of the second and beginning of the third year of a three year Secretarial Initiative (March 2007) to address the perceived barriers to full compliance by the government of Mexico (GOM) with the North American Free Trade Agreement (NAFTA). Specifically, this project works with the International Maize and Wheat Improvement Center (CIMMYT) and the Postgraduate College of the Mexico Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA). The goal of this project is to enable small and medium scale corn and dry bean producers, at a regional level, to take advantage of market changes attributed to NAFTA.

As NAFTA completes its first year of full implementation in 2008, the GOM faces growing pressure from agricultural producers of sensitive products for protection from U.S. imports. Under the terms of NAFTA, Mexico and the United States eliminated all remaining tariff-rate quotas (TRQ) on their most sensitive agricultural products on January 1, 2008, thus ending a 14 year phase-out period of all import duties. Throughout this period, the GOM also consolidated many farm support programs and instituted new rules. The combination of these changes has raised concern among Mexican corn and

dry bean producers, many of whom perceive U.S. imports as threats to their wellbeing. As recently as January 31, 2008, Mexican producers expressed their apprehension through protests and called for the renegotiation of NAFTA.

NAFTA has resulted in expanded trade between its three members; consequently full implementation of the accord is in the best interest of both the United States and Mexico. U.S. agricultural products lost market share in Mexico in the years immediately prior to NAFTA as competition for the Mexican market increased. NAFTA reversed this trend by allowing U.S. farm and food exports to have preferential access to Mexico's domestic market. Between FY03 and FY07 (the latest years for which data is available), U.S. Agricultural, Fish and Forestry exports to Mexico increased 60 percent, and FY07 exports set a new record, at over \$12.97 billion.

The GOM can best serve its small-holder producers by enhancing rural economic development and creating new opportunities and jobs. Ignoring these producers' concerns could lead to reduced Mexican support for full compliance with NAFTA. This project assists the GOM by providing capacity building to diversify economic opportunities for small-holder corn and dry bean producers. These activities will not compete with U.S. exports – and in some cases will utilize U.S. produced inputs. The ultimate aim is to build confidence among small-holder corn and dry bean producers that U.S. products do not pose a threat to their livelihood, which will help improve market receptiveness for U.S. agricultural products in Mexico and thus benefit U.S. producers.

Project Objectives: To strengthen Mexico's capacity to meet its NAFTA obligations on politically sensitive agricultural products.

To achieve this objective, OCBF has designed a 3 year (36 month) program, with the first 16 months completed by the end of FY08. This FY09 proposal is for funding to support months 17 – 29. The activities will build on deliverables achieved in the first 16 months that improved information networks and new technology available to small and medium sized farmers. These activities will:

- Support diversification away from corn and dry bean production;
- Support environmental sustainability of crop and livestock production;
- Increase farmer profitability and competitiveness through improving local seed varieties and genetic traits of local livestock herds;
- Provide technical support to farmers on new techniques, products, equipment, implements, and livestock feed; and
- Strengthen linkages between government research institutions and the farmer to maintain the transfer of information on new technologies.

The project supports activities in three important corn and dry bean producing states, Mexico, San Luis Potosi and Zacatecas. The project also links scientists from the United States and Mexico to encourage collaborative research in areas of appropriate technology

and seed science to aid crop improvements in both countries. Finally, the activities in this project will strengthen local Mexican sheep herds using U.S. stock.

Rationale: This project is part of a Secretarial Initiative that came out of a March, 2007 trip by Secretary Johanns to Mexico to discuss the accomplishments of NAFTA. During his trip, the Secretary made a \$2 million, three year commitment to assist the GOM in building domestic support for NAFTA by addressing issues facing small-scale and subsistence corn and dry bean producers.

Overall, the Agreement has resulted in expanded trade between the United States, Canada and Mexico. With an expanding economy and an increasingly market oriented agricultural sector, Mexico is now the United States' second largest agricultural trading partner. Nevertheless, many small and medium sized farmers feel that they have lost market opportunities due to this increased trade, and have protested vociferously against NAFTA. The technical assistance provided under this proposal to affected producers will help them adapt to the realities of NAFTA and a market-based economy, thus alleviating their concerns about negative impacts.

This proposal is supported by the 2008 Mexico Country Strategy Statement (CSS). The CSS states that promotion of trade capacity building could help reduce negative perceptions of NAFTA and help relieve pressure for additional trade barriers. The Post's first strategic objective is to work to ensure that Mexico maintains market access commitments under the NAFTA, including on sensitive products such as corn, sugar, pork, and beans. Post's fifth strategic goal is to continue to work with the GOM to build trade and agricultural capacity that will expand the market for U.S. agricultural products through economic growth and adjustment. The Post's strategic objective 5.1 is to help alleviate pressure against NAFTA, thus maintaining trade access, while also improving agricultural practices, through technical assistance programs for sensitive commodities within the Mexican agricultural sector.

Clear demonstration of benefit: The United States will benefit if the GOM resists rural pressure to backtrack on its NAFTA agricultural commitments and instead chooses to actively support full implementation of the accord. As Mexico's economy grows and develops, the United States will be well positioned to increase its agricultural exports. Modernization and efficiency techniques and equipment rely on products and technologies sold by multiple U.S. industries. By assisting Mexico in building domestic support of NAFTA, this project will create and expand opportunities for these industries. This project will have direct impact on several agricultural sectors; therefore, no single industry stands to gain by this proposal to the exclusion of others.

Additionally, this project will foster scientific exchanges between agricultural specialists from the United States and Mexico, adding to the scientific databases that U.S. plant breeding scientists will be able to access. Mexico is the ancestral home of corn and some dry bean varieties. Local varieties are known to contain valuable germplasm that plays a

critical role in improving corn yield, pest resistance, high altitude hardiness, growth cycle, drought resistance and protein content throughout the world.

Finally, several new activities added to this proposal will require high quality livestock to improve the genetic traits of local herds through a breeding program. These animals, along with dairy technology and milking equipment, will be imported from the United States. This action will not only provide economic opportunities for certain U.S. agriculture exporters, but will also contribute to development of longer-term linkages between the U.S. and Mexican livestock industries.

Why federal funding is requested for the project: This project comes from a 2007 Secretarial Initiative to support Mexico's implementation of NAFTA. This project would use federal funding to follow up on the commitment made by then Secretary Johanns during a 2007 visit to Mexico to provide \$2 million for projects that strengthen domestic political support.

Moreover, it is in the general best interest of the United States for Mexico to be a strong free trade partner. The 2008 CSS calls attention to the continued pressure by small scale producers on the Government of Mexico to slow its compliance with NAFTA. This project responds to Mexican concerns and the U.S. interest in ensuring continued NAFTA compliance by providing training on new technologies for small and medium sized farmers so they can fully take part in the economic opportunities created by NAFTA and will therefore more likely support the Agreement. Success in this task will be an excellent demonstration of how to bridge gaps in free trade as they emerge.

Federal funding to support this program is also justified since it advances the USDA Foreign Agricultural Service (FAS) mission, "To create economic opportunity for American agriculture by expanding global markets." In particular, this project supports FAS' strategic objective 1.3, "Build support for open trade by developing strategic relationships with foreign governments;" and strategic objective 2.2, "Support the U.S. trade policy agenda through trade capacity building activities." Public support in Mexico for NAFTA creates demand and export opportunities for U.S. agricultural products, and such demand can be considered a general public good, thereby justifying expenditure of federal funds.

Specific description of activities:

1. Corn sector activities:

The activities for FY09 will expand and build upon the success of those completed under previous tranches, which resulted in important accomplishments in germplasm characterization, maize improvement, participatory farmer seed-evaluation, and market knowledge. Collaborative research between government and international research institutes will be updated and expanded to reflect progress towards delivery of germplasm

and information to farmers. For example, market studies conducted in the previous phases highlighted the importance of stover¹ quality to small producers; this has been added as a quality characterization component. Other previous activities revealed that private-sector seed producers should be involved in delivering products to farmers, so activities have been added on seed production with a focus on small seed companies and farmer organizations. Finally, a market survey conducted in the early phases found that post-harvest storage of seed and grain was a constraint for small producers, so activities aimed at testing and delivering improved low-cost storage options are also added.

Specific activities will:

- Perform advanced characterization of existing maize germplasm (both traditional and improved) for traits valued by farmers and markets, including stover quality and digestibility.
- Undertake germplasm improvement activities to better meet market requirements for white tortilla maize, yellow feed maize, and high-value blue maize.
- Increase farmer-participatory germplasm evaluation trials, and expand dissemination of information and seed of high-value, highly-productive varieties.
- Enhance food technology and nutrition research with rapid quality analysis techniques to guide the project and demonstrate potential impact.
- Improve seed production and seed systems development to make germplasm more accessible to local seed companies and therefore more widely available to farmers.
- Develop and test low-cost options for improved postharvest grain and seed storage using farmer-participatory evaluation activities.

These activities will continue to be undertaken by the International Center for the Improvement of Corn and Wheat (CIMMYT, its Spanish acronym) and its Mexican collaborators. CIMMYT is a non-profit research and training center based in the state of Mexico, whose mission is to use knowledge and technology to increase food security, improve the productivity and profitability of farming systems, and sustain natural resources. CIMMYT

2. Dry Bean Sector activities:

The project will seek to build the capacity of local producers so they can diversify their crops, expand and diversify their livestock, and improve their farming methods, including learning conservation techniques. In the first stage of this project, activities focused on diversifying the farming activities of dry bean farmers by introducing new techniques to manufacture sheep feed from prickly pear cactus, beans and cereals. These new feeding methods will decrease dependence on grazing in stressed natural grasslands, leading to improved rangeland management. The next step is diversification of the current breeding program. These goals will be achieved by supporting local technical assistance that builds bridges between the local research University and local farmers.

¹ Stover is the dried stalks and leaves of a crop that are left in the field after the grain has been harvested. The quality of corn husks is particularly important for the making of tamales, and selling husks can bring in as much income as the grain itself.

Specific activities will:

- Continue technical training activities, organization of farmer associations, and procedural guidance in applying for government subsidies.
- Support the development of a sheep milking and breeding program by:
 - Establishing a parent herd of 100 ewes and 10 rams to inseminate existing local flocks and to produce future sires for continuous interbreeding;
 - Establishing 75 feedlot trials using local flocks of 25 sheep each to demonstrate economic benefits of using feed produced locally with the crops from earlier activities (beans, wheat and cactus);
 - Supporting part of the cost of processing the new feed from local inputs (prickly pear cactus, beans and cereals); and
 - Conducting 8 two-day capacity building workshops for 75 participants on sheep husbandry.
- Conduct 8 leadership development workshops and value chain training programs with sheep and doing an empowerment evaluation project with 75 group representatives.
- Hire two specialists to train farmers and supervise the sheep project.

The dry bean and sheep activities will be carried out by the Colegio de Postgraduados (Postgraduate College, or Colegio for short). The Colegio is part of SAGARPA, and its mission includes postgraduate education, as well as research and extension. The Colegio has seven campuses throughout Mexico, and has a solid working relationship with farmers in the states of Zacatecas and San Luis Potosí.

Timeline: The life of this project is from June 2007 to May 2010. The funding for this proposal will be used for the 2008/2009 fiscal year.

| | 2008 | | | 2009 | | | | | | | | |
|--|------|------|------|------|------|-------|-------|-----|------|------|--------|-------|
| Corn Sector | Oct. | Nov. | Dec. | Jan. | Feb. | March | April | May | June | July | August | Sept. |
| 1st year Field trials of already improved seed | | | | | | | | | | | | |
| Growing crosses in the field | | | | | | | | | | | | |
| Farmer field days | | | | | | | | | | | | |
| Decision making with partners on varieties | | | | | | | | | | | | |
| New seed collection | | | | | | | | | | | | |
| Increasing chosen varieties | | | | | | | | | | | | |
| Growing crosses in the nursery | | | | | | | | | | | | |
| Training activities | | | | | | | | | | | | |
| Laboratory work/ seed characterization | | | | | | | | | | | | |
| Evaluation of postharvest grain and seed storage | | | | | | | | | | | | |

| | 2008 | | | 2009 | | | | | | | | |
|----------------------------|------|------|------|------|------|-------|-------|-----|------|------|--------|-------|
| | Oct. | Nov. | Dec. | Jan. | Feb. | March | April | May | June | July | August | Sept. |
| Dry Bean Sector | | | | | | | | | | | | |
| Replanting of Prickly Pear | | | | | | | | | | | | |
| Dry bean season | | | | | | | | | | | | |
| Wheat and oats season | | | | | | | | | | | | |
| Livestock demonstrations | | | | | | | | | | | | |
| Technical training events | | | | | | | | | | | | |
| Leadership workshops | | | | | | | | | | | | |

Performance Measures:

- Validate the level of productivity and report on observable crop diversification after two complete cropping seasons.
- Report to USDA on status of corn research and varieties developed by both CIMMYT and collaborative work with partner institutions.
- Replication of agricultural extension training events related to farmer participation, improved farm business management skills and improved production and post-harvest practices.
- Measure the level of farmer participation in sheep milk production activities.
- Evaluate the local availability and adoption rate of farmer-selected seed varieties.

Have similar project activities been funded by USDA or others in the target economy/economies? While currently there are projects funded by U.S. government agencies and institutions in Mexico, none of these are multi-sector projects aimed at directly addressing the potential barriers to NAFTA compliance by the GOM. This project started in FY07 with EMO funding and FY 09 activities will build on those of the previous 16 months.

Activity budget:

This proposal is requesting funding for FY09 funds, which are highlighted below:

| | FY09 |
|------------------------|-----------------------|
| | Months 17 – 29 |
| USDA travel | \$15,000 |
| USDA salary | \$20,000 |
| CIMMYT research | \$235,000 |
| CIMMYT farmer outreach | \$155,000 |
| Postgraduate College | \$420,000 |
| Total | \$845,000 |

Total Funding requested in this proposal:

This proposal is for FY09, which comprises months 17 – 29 of a 36 month project. The total project support over three years that was promised to the GOM by Secretary Johanns was \$2 million. Thus far in the program, almost \$950,000 has been allocated. This proposal would raise the total commitment to date to \$1,795,000.